



**OFFICE OF THE AUDITOR GENERAL**

## 14.

### REPORT ON THE OFFICE OF THE AUDITOR GENERAL

#### MANDATE

**14.1** The responsibilities and authorities of the Auditor General are derived from the Auditor General Act (Chapter 28, 1989). The Act specifies the responsibility to examine the accounts of the Province and its various agencies and the requirement to report to the House of Assembly on the government's stewardship of public funds. Appendix I on page 210 of this Report includes extracts of the audit mandate and reporting sections of the Auditor General Act.

**14.2** Some other Provincial statutes and regulations, as well as other enabling arrangements for certain entities, provide additional or more specific mandates to this Office. For the most part these relate to the performance of the annual financial statement audit function for certain crown agencies or funds. The Office's mandate with respect to the review of the annual revenue estimates is quite unique. During 1998, amendments to the Auditor General Act were passed expanding the Auditor General's mandate, most notably with regard to the audit of the *Public Accounts* commencing with the fiscal year ended March 31, 1999.

**14.3** In addition to the Office's statutory mandate(s), there have been instances where audit coverage by this Office has been incorporated into policy guidelines and control standards approved by government. For example, see the extracts from internal policy and standard guidelines in Appendix 14A on page 207. The Department of Finance's draft policy for debt management also includes reference to specific involvement by this Office. In addition, legal agreements related to public-private partnerships (P3s) also include reference to the Auditor General (see example in Appendix 14B on page 208).

**14.4** While we do not take exception to general reference to the Office's work in such policy statements, we are concerned that there may be some misunderstanding about the nature, extent or timing of our coverage in such regards. As presented, it could be interpreted that this Office actively audits each of the respective areas or matters on a detailed and almost continuing basis. This may not be the case, since each year we make decisions as to which aspects of government operations and control will get specific and more detailed coverage.

#### MISSION, VISION AND VALUES

**14.5** Exhibit 14.1 on page 204 is an extract from the Office's *Business Plan* which was prepared after consideration of the guidelines issued within government for use by departments and agencies.

#### STRATEGIC GOALS AND OBJECTIVES

**14.6** As a result of internal planning activities, the Office has identified the following key goals that are being used to guide our audit and related activities.

- To achieve positive change in the accountability for and management of public funds.

- To provide assurance on the credibility of financial statements and other representations in order to assist the House of Assembly to hold the government to account.
- To strive for excellence through the pursuit of state-of-the-art knowledge, skills and abilities, and to work to the highest standards of our profession.
- To provide cost effective use of resources in support of the role and responsibilities of our Office.

**14.7** These goals are reviewed each year and will continue to evolve. Further, we monitor our overall performance against these goals.

### **CORE BUSINESS FUNCTIONS**

**14.8** The Office conducts audits under the Auditor General Act and reports the results to the House of Assembly. The types of audits and reports provided are described in the Office's Mission. However, for purposes of a more complete description, our business function is comprised of the following elements:

- In addition to the Auditor General Act, other legislation, including the Provincial Finance Act, specifies audit responsibilities. Under each of these, our function is to provide information to the House of Assembly and the public, and where appropriate, advice to both the government and managers of government entities.
- We perform assessments from which flow the provision of assurance, advice, recommendations and analyses.
- We identify and monitor emerging issues, and research developments and initiatives in other jurisdictions related to the management, control and reporting of public funds, in order to provide advice regarding opportunities for improvement.
- We support the Public Accounts Committee by providing information through briefings and by responding to queries.

### **OUTCOME MEASURES**

**14.9** While outcomes can only be measured through compilation and interpretation of data from various sources, for purposes of performance monitoring, we have identified the following outcome measures relating to the achievement of the Office's strategic goals and objectives.

- The degree to which positive change has occurred in the management of public funds. This can only be measured over time and requires benchmarking and subsequent comparison.
- The extent to which financial statements and other management representations are presented fairly, on a timely basis, and are considered useful as accountability reports. This also can only be measured over time and requires benchmarking and subsequent analysis.

- The extent of external recognition of the Office as an effective professional legislative audit function. This can be measured in a variety of ways including peer review, report user feedback, media analysis and professional recognition.
- The comparison of the costs of the Office to the costs of similar legislative and other audit organizations. Various cost comparisons can be developed and analyzed to measure Office performance.

**14.10** We remain committed to the gathering and consideration of information against these outcome measures, and to making this a more formal and integral element of our ongoing planning and performance management processes. Further, initiatives within the legislative audit community, particularly under the auspices of the Canadian Council of Legislative Auditors (CCOLA), have provided more structured and detailed mechanisms that will support our efforts in this regard.

## **ORGANIZATION**

**14.11** As at November 1999, we had 26 staff. Subject to the availability of funds, we outsource for specialist expertise and other audit resources on selected assignments.

**14.12** Public funds of the Province of Nova Scotia are collected and expended through various departments and agencies. In order to effectively plan and manage the activities of the Office, we are organized into three teams each headed by a senior manager. Staff members are periodically rotated among the teams to provide career development opportunities, technical training, and to meet operational priorities. Each of the senior managers reports to the Auditor General, participates in the overall management of Office activities, has overall responsibility for a group of departments and agencies, and is the prime focus for communications with those organizations.

**14.13** It is a responsibility of each senior manager to periodically review past and intended audit coverage of assigned portfolio departments and agencies. These reviews are to be consolidated into multi-year strategic plans giving due consideration to the needs of the House of Assembly, evaluation of risk factors, and availability of resources.

**14.14** Exhibit 14.3 on page 206 provides summary financial information on the Office's operations. Staff costs consistently account for 80% or more of the Office's expenditures on an annual basis.

**14.15** The Office's restructuring and downsizing initiatives in recent years were supported in part by increased use of information technology resources, including a system obtained from the Department of Public Works and Government Services Canada.

## **COMMITTEE OF INDEPENDENT ADVISORS**

**14.16** In 1994 an Independent Advisory Committee of senior members of the business and academic community was established. The terms of reference for the committee are provided in Exhibit 14.2 on page 205. Certain other legislative auditors in Canada successfully use similar advisory committee arrangements.

**14.17** The creation of this group and its participation have been positive initiatives, and we appreciate the open and insightful contributions it continues to make to our efforts to plan and manage the Office's activities and outputs.

## PROFESSIONAL AFFILIATIONS AND ACTIVITIES

**14.18** The Office strives to remain at the leading edge of legislative and other professional audit practices, and to share knowledge and experiences within those communities. We do this through participation in relevant professional organizations, including the following.

The Canadian Council of Legislative Auditors (CCOLA)

The Canadian Institute of Chartered Accountants

CCAF-FCVI Inc.

The Certified General Accountants Association

The Financial Management Institute

The Information Systems Audit and Control Association

The Institute of Chartered Accountants of Nova Scotia

The Institute of Internal Auditors

The Society of Management Accountants

**14.19** Professional staff at all levels participate as members of committees, by providing input and commentary on research publications, and by attending various professional conferences, seminars and meetings.

## PERFORMANCE

**14.20** In addition to our required and planned assignments, the Office continued to receive various general and specific matters referred to it from sources external to the Office, including government, opposition parties and the general public. Our ability to react or respond to such matters, if appropriate under our mandate, is contingent on our available resources and other priorities.

**14.21** Overall, we are pleased with our achievements in the past year, but much remains to be done. The following are summary comments on the Office's activities and accomplishments over the past year.

- In this, the first year of our mandate to do so, we successfully planned and conducted the audit of the Province's traditional non-consolidated financial statements. Finalization of these financial statements including resolution of audit related issues was delayed as the result of the election call. The new government subsequently decided to implement a number of changes and adjustments to the financial statements, including consolidation.
- We continue to be the only legislative audit office in Canada that provides an opinion on a government's annual revenue estimates. We fulfilled this requirement for Budget Addresses on both June 1, 1999 and October 14, 1999. Interest in the provision of this service continues to be expressed by other jurisdictions.

- We provided the Public Accounts Committee with a number of detailed briefing sessions including two sessions focusing on specific subject matter from our 1998 Annual Report.
- Communications with central agencies, departments, other government agencies, professional organizations and the public have been maintained and enhanced. Outside counsel through the Independent Advisory Committee continues to be of great benefit.
- The Office continues to receive very positive communications from both the business community as well as the general public concerning the quality and impact of our reporting.
- We completed arrangements to contract external audit resources to support the Office's efforts to meet our increased annual financial statement audit responsibilities. More specifically we:
  - seconded a senior manager from the Office of the Provincial Auditor of Saskatchewan who had extensive experience in the audit of that jurisdiction's financial statements;
  - out-sourced on an agency basis, the performance of annual financial statement audit work on six crown entities that the Auditor General reports upon; and
  - contracted external resources to assist the Office in its work and involvement related to a fall 1999 U.S. Securities and Exchange Commission filing.

With the increasing workload relating to annual financial statement audit, the Office will continue to expand its use of contracted resources.

- Staff development continues to be a priority, particularly in the areas of professional audit practices and information technology. In addition we sent three staff members to participate in a Value for Money auditing course offered by the Office of the Auditor General of Canada. In turn, these staff will present this course to others in our Office.
- The use, control and audit of information technology resources are of strategic importance to the performance of the Office. We have made significant investments in recent years aimed at providing our staff with the resources, training and support needed. This will represent a continuing commitment by the Office, and we monitor the results and payback of the related investments.
- We have inventoried and assessed our risks and exposures to the Year 2000 problem and its potential impact on our business functions and activities. Our overall risks have been assessed as low since we have completed our remediation efforts as well as a fully detailed Business Continuity Plan.
- The Office continues to receive requests for information on or demonstration of the Lotus Notes based audit suite which we implemented in order to automate our audit process and file working papers.

- With the Department of Finance, we jointly sponsored an external assessment of the liability and risk management practices of government. Audit staff from Finance, and this Office worked with the successful proponent on this assignment.
- In October 1999, the government established the Fiscal Management Task Force under the auspices of the Voluntary Planning Board. The task force was charged with the responsibility to undertake a review of the financial position of the Province of Nova Scotia and to submit recommendations on how to balance the budget, and present a framework and set of guidelines to assist in the government's review of programs. The task force will "...examine the province's fiscal situation...analyze fiscal steps taken by other provinces, seek the advice of experts and draw from the wealth of knowledge to be gained from public input." The Auditor General has been appointed Special Advisor to the task force and both he and the Deputy Auditor General have attended the meetings held to date and provided information and advice.
- The Provincial Internal Audit Committee (PIAC) established a Year 2000 sub-committee to gather information and formulate a common audit strategy for reviewing and assessing departmental Year 2000 projects. At the request of PIAC, the Auditor General agreed to have two staff members sit on the sub-committee in an advisory capacity, as a means of cooperation and coordination, and to minimize duplication of efforts. The Office will continue to promote cooperation with the internal audit community as opportunities are presented.
- During the year the government established a Tangible Capital Assets (TCA) Steering Committee to oversee the implementation of TCA related policies. The Steering Committee established a sub-committee to identify the various options for capitalizing highways and bridges. The Auditor General agreed to a request to have a staff member sit on this sub-committee in an advisory capacity.
- We continued our participation with the Canadian Council of Legislative Auditors (CCOLA) in the following capacities:
  - the Auditor General of Nova Scotia is a member of the Planning and Coordinating Committee;
  - our Office was represented on the Legislative Audit Practices Committee;
  - our Office was represented on the Information Technology Committee;
  - our Office participated in a study group on performance management and reporting by the legislative audit function. The Office remains committed to expanding our use of various performance indicators which have been identified through the study group;
  - our Office participated in a study group on joint audits planned and performed by member Offices of CCOLA; and
  - our Office was represented on the Human Resources Network.
- We participated in a joint audit of the Federal/Provincial Infrastructure Works Program with the Office of the Auditor General of Canada and the Office of the Provincial Auditor of Saskatchewan (see page 136 of this Report). This was one of the first joint audits of a Federal-Provincial program, and we expect that there will

be more joint audits in the future as governments enter into more collaborative arrangements.

- We continued to be advocates for improvements in accountability and governance in the public sector. This was accomplished through making presentations to groups such as the Provincial Health Council.
- The Office continues to progress with our occupational health and safety committee as required by statute and government policy. Several opportunities identified in an initial assessment last year were addressed in the current year with the full support of our senior management committee.
- Two staff members sat for the Uniform Final Examinations administered by the Canadian Institute of Chartered Accountants. At the date of writing this chapter, the results had not yet been released.

## PRIORITIES

**14.22** Strategic and long-range planning for the Office includes, among other things, consideration of the Office's audit universe, the needs of the Legislature, areas of risk and available resources.

**14.23** On the administrative side, our priorities are to continue to operate within our expenditure control plan. This will entail filling certain vacancies that arise as a result of retirements or resignations with more junior professional staff.

**14.24** Within these overall strategic priorities, our specific goals are the following:

- To improve the quality of our audits by implementing appropriate changes to our audit methodology and by utilizing contracted specialists when it is cost effective to do so and when funds are available.
- To improve the quality of external communication.
- To continue to provide appropriate support to the Public Accounts Committee.
- To build on and expand the use of information technology as a means of optimizing the cost effectiveness of Office resources.

**14.25** In addition to the above and the specific audit projects planned in 1999-2000, we plan to:

- Successfully plan and perform the audit of the Government's financial statements to be published in the *Public Accounts*, such that they are available for release in summer 2000.
- As necessary or requested, provide constructive and timely advice and assistance to the Public Accounts Committee, the central agencies of government and various departments and agencies to strengthen and formalize accountability arrangements. To the extent appropriate this will include timely audit input and advice during the development of proposed improvements.
- Be prepared to have our financial statement audit practices assessed by the Institute of Chartered Accountants of Nova Scotia's Professional Standards Review program.

- Pursue opportunities to have our broader-scoped audit practices subject to a peer review by qualified and experienced representatives from legislative audit functions in other jurisdictions.
  - Continue our involvement and support for CCOLA and its various committees and study groups. In September 2000 the Office, in cooperation with the Public Accounts Committee, will jointly host the meetings of CCOLA and the Canadian Council of Public Accounts Committees in Halifax. These sessions will be attended by representatives of the legislative audit offices and Public Accounts Committees of all provincial and federal Canadian jurisdictions as well as Bermuda.
  - The Auditor General will continue in the role of Special Advisor to the government's Fiscal Management Task Force. Both he and the Deputy Auditor General will continue to attend meetings of the task force and provide information and advice as appropriate.
  - Pursue opportunities to conduct joint or concurrent audits in selected areas with the legislative audit functions in other jurisdictions.
  - Make decisions and implement any necessary changes to our audit methodology and practices, including adhering to the CICA's new standards for assurance engagements.
  - To develop and implement a more formalized means for tracking specific issues and questions posed to us by individual members of the Legislature, the media, as well as the general public.
  - Continue efforts to enhance liaison and coordination with the internal audit community within government, especially in relation to achieving cost-effective audit coverage of significant areas of common concern across government.
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*Exhibit 14.1***Office of the Auditor General  
Mission, Vision and Values**

***Our Mission*** - The Office derives its mandate from the Auditor General Act (Chapter 28, 1989). The people of Nova Scotia, through their elected representatives, need assurance that their tax dollars are expended for the purposes intended. As the legislative auditor of the Province, the Office helps the House of Assembly to hold the government to account by providing opinions:

- on the credibility of financial statements and other government representations;
- concerning compliance with legislation, regulations, agreements, and policies;
- on the adequacy of control; and
- on the extent of due regard for economy and efficiency in the management of public funds.

In addition, the Office provides advice to assist in improving the accountability for, and the management of, public funds.

***Our Vision*** - The Office strives for excellence in public sector management and value for money in the use of public funds.

***Our Values*** - In pursuing our mission, we value our clients, our people, and our professionalism.

- We strive to provide quality service to the House of Assembly, its members, and other clients. We do this with initiative and commitment, employing state of the art knowledge, skills, and abilities. We seek to be progressive, encouraging leadership, intelligent risk-taking, and high standards of reliability.
- We treat each other with fairness and equality, communicating openly, honestly, and respectfully. We place great importance in career development, training, professional fulfilment, and quality of work life. We work together as a partnership, support staff and professionals, recognizing each person's unique contribution.
- We work to the highest standards of our profession, maintaining a relationship with the House of Assembly and the government that is confidential, independent, objective, and professional. We endeavor to be creative while remaining practical, economical, and efficient. We share our knowledge, values, ideas, and experiences within the Office, the government, and our profession.

*Exhibit 14.2***AUDITOR GENERAL OF NOVA SCOTIA  
COMMITTEE OF INDEPENDENT ADVISORS****TERMS OF REFERENCE****OBJECTIVE**

The role of the committee is to advise the Auditor General on issues facing the Office and to assist in promoting effective management of public funds and improved accountability.

More specifically the Committee will consider and advise on:

1. Initiatives designed to strengthen the professional competence, adherence to professional standards and overall effectiveness of the Office.
2. Technical and managerial issues arising from government-wide and departmental audits.
3. Accountability issues with particular regard to information published by the Government on financial and program performance.
4. Strategic and long-term operational objectives of the Office.

**MEMBERSHIP**

1. The Committee consists of no fewer than six and no more than eight senior members of the business and academic community selected for their knowledge and experience in the fields of management, finance, accounting and auditing in both the public and private sectors.
2. Members serve on a voluntary basis at the invitation of the Auditor General for a term of one year and are eligible for reappointment.
3. The Committee is chaired by the Auditor General with secretarial support provided by his Office.

**MEETINGS**

1. Meetings are held at least semi-annually at the call of the chair.
2. An agenda and briefing material are prepared by the Auditor General and circulated in advance of the meeting. Additional briefings are provided by staff of the Office.

*Exhibit 14.3*

<b>OFFICE OF THE AUDITOR GENERAL SUMMARY FINANCIAL INFORMATION</b>			
	<b>1998-99 Estimate</b>	<b>1998-99 Actual</b>	<b>1999-2000 Estimate</b>
Salaries & Benefits (3)	<u>\$ 1,505,600</u>	<u>\$ 1,393,533</u>	<u>\$ 1,604,300</u>
Operating Costs			
- Travel	57,000	48,610	44,000
- Professional & special services (4)	40,000	198,897	189,000
- Supplies & services	85,200	75,937	66,000
- Other (including IT related costs)	<u>130,000</u>	<u>104,184</u>	<u>108,700</u>
	<u>312,200</u>	<u>427,628</u>	<u>407,700</u>
Gross Expenditure	1,817,800	1,821,161	2,012,000
Less: Fees & other charges (5)	<u>(112,800)</u>	<u>(222,800)</u>	<u>(175,000)</u>
Net Expenditures	<u>\$ 1,705,000</u>	<u>\$ 1,598,361</u>	<u>\$ 1,837,000</u>
<p>(1) During 1998-99, the Technology &amp; Science Secretariat acquired information technology resources for the Office at a cost of \$17,308, which are not included above.</p> <p>(2) The costs associated with the Office's leased premises are not included above. Those costs - approximately \$68,900 for 1998-99 - are reported by the Department of Transportation and Public Works.</p> <p>(3) During 1998-99, there were two staff vacancies which were not filled. For 1999-2000, one of the vacant positions was filled and government increased salaries and benefits in accordance with negotiated settlements.</p> <p>(4) During 1998-99 professional &amp; special services exceeded the budgeted amount due to a request by government to perform a special audit of the Worker's Compensation Board.</p> <p>(5) During 1998-99 fees and other charges exceeded the budgeted amount since the costs related to the special audit of the Worker's Compensation Board were recovered.</p>			

**Appendix 14A****Extract from Procurement Guidelines***Audit*

All procurement activities will be subject to such audit processes as may be determined appropriate by the Auditor General or the Auditor General in consultation with the Procurement Branch. Two forms of audit may occur. A compliance audit may be conducted to determine the level of adherence with established procurement rules and policies. A quality audit may also be undertaken in conjunction with or separately from compliance audits. The quality audit will examine the process undertaken and decisions reached from a defensibility and accountability point of view. Departments experiencing unacceptable compliance or quality audits and, in the opinion of the Minister of Finance, fail to undertake suitable measures for their resolution, may have all delegated procurement authority revoked until such time as satisfactory steps have been taken.

All procurement activities will be subject to audit by departmental internal auditors and specific audits as instructed by the Procurement Branch.

**Extract from Information Technology (IT) Standards***Review for Compliance:*

Perform formal review of various departments' use of IT standards. Done by the Office of the Auditor General.

*Audit Process and Report:*

Produce formal audit report on departments' use of IT Standards. Done by the Office of the Auditor General.

*Audit for Benefit and Value:*

Perform audit of IT standards use in departments regarding the benefit and financial value. Done by the Office of the Auditor General.

*Appendix 14B***EXTRACT FROM DEVELOPMENT AGREEMENT  
FOR P3 SCHOOLS**

“...the Province may obtain, for its sole benefit, confirmation from the Auditor General of the Province of Nova Scotia as to whether this Agreement and the Service Agreements meet the criteria of an operating lease as set forth in Section 3065 of the CICA Rules...

...where, in the opinion of the Auditor General, the Service Agreement fails to meet the requirements of an operating lease pursuant to Section 3065 of the CICA Rules, the Province may terminate the agreement...and the Province will be under no obligation to pay the Developer for any Total Project Costs...

...the Province may obtain an updated opinion, for its sole benefit, from the Auditor General of the Province of Nova Scotia confirming the opinion prior...failing which the Province shall be entitled to terminate this Agreement...”